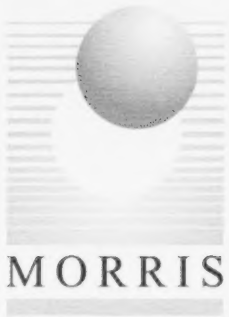

GEORGE MORRIS CENTRE

US Farm Bill Developments: 2013 and Implications for Canada's Agri-Food Sector

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Introduction

Most Canadians have little understanding of US legislative or policy processes, or the history and complexities of US legislation. The passage and Presidential signing of the "fiscal cliff" legislation- "The American Taxpayer Relief Act of 2012"[1] in the late hours of 2012, and early days of 2013 would seem to reinforce Canadian perceptions of the greater stability (less chaotic) and less precarious fiscal and policy position of our federal and provincial governments in comparison to the US federal government. This may not be as well founded as believed particularly for Canada's agri-food sector operating within an integrated North American market.

For those far fewer Canadians interested in the US farm policy, the above Act provided a seemingly straightforward one year extension of the 2008 Farm Bill to September 2013. A closer examination of the US results would argue that the Canadian agri-food sector should pay much closer attention to this legislative action and the future farm policy developments within US as these occur throughout 2013.

This commentary examines the current legislative situation for the US Farm Bill process, and the likely next steps and implications within continually changing fiscal, policy and market environments for the US and Canadian agriculture and food sectors.

2012 US Farm Bill Process and Policy Impasse

The 2012 Farm Bill policy development process followed its traditional path as both US Senate and House Agriculture Committees openly reviewed the various titles of the 2008 Farm Bill (which ended in most part on September 30, 2012) and its impacts. This process included transparent and divergent analyses of market changes and policy shifts within US agriculture and food sector as well as the global agri-food market. The overall fiscal picture for the US government was a prominent factor. The basic farm bill policy framework remains somewhat unchanged since the end of the Second World War. Current fall bill legislation has a fallback position of the "permanent" 1949 legislation with much higher target price supports for a number of farm commodities, providing a "spur" to legislate a new farm bill before a new calendar year

Timing for legislative approval was deemed critical by the Committee Chairs as the 2008 Farm Bill ended on September 30, 2012. Their intent was to have a Farm Bill passed before the end of the 2008 Bill, or at least before the Presidential election, or at very least before the full Congressional focus on the January 1, 2013 fiscal cliff negotiations.

Although the Farm Bill process started early, the House and Senate Agriculture Committees did not come to complete consensus between the two Houses of Congress. The Senate farm bill

[1] "The American Taxpayer Relief Act of 2012", January 2, 2013, Washington, D.C.

proposal was passed by the US Senate, but the House of Representatives did not pass its bill. This policy impasse continued throughout the fall of 2012 and into the full "fiscal cliff" negotiations in late 2012.

The policy impasse was not due to major differences in approach between the two Committee bills. Both had variations of the US grains/oilseeds sector proposal for "shallow loss" income support, a concurrent elimination/reduction in the direct payments program as existed in the 2008 Farm Bill, new programming for the US dairy farm industry (as supported by the National Milk Producers Federation) and smaller cuts in other program areas. The recent increases in net farm incomes in the United States, even in 2012 despite the severe drought also raised issues of the continued need for the full programming benefits for US farmers.[2] (See Appendix 1 for full chart) The multiyear savings were very similar- between $24B-$35B+[3] (US). It should be noted that the Congressional Budget Office (CBO) "scoring" (fiscal cost estimate) of the Senate farm bill proposal, was over $960 Billion (US) over a ten year period.[4] (See Appendix 2 for full chart of key title cost changes).

The broader US farm community was not in complete consensus over the shallow loss vs. direct payments trade off, nor were some US food groups with the continuation of certain farm programs (sugar program as one example), or with the proposed new dairy program. The total fiscal savings did not seem to be sufficient for a number of House members looking for significant savings to address the wider deficit issues facing the US federal government. This meant that the anticipated passage of the 5 year 2012 Farm Bill was not accomplished before the last weeks of December despite strenuous efforts by Senate and House Agriculture Committee members and many US farm stakeholders.

This left the US farm bill discussions completely within the fiscal cliff negotiations over the major tax increases and fiscal cuts to be initiated in early 2013 unless resolved before that date.

The American Taxpayer Relief Act of 2012 and Extension of 2008 Farm Bill

The "fiscal cliff" was the result of an earlier agreement between the US Congress and the US Administration to position a future decision to address more substantively severe US fiscal circumstances by January 1, 2013, or major tax increases and federal budget cuts would occur without any further Congressional/Administration action. The Presidential election in November 2012, which re-elected President Obama did not resolve this fiscal impasse. Full negotiations were fully pursued in the last months of 2012. Numerous proposals, discussions of "grand bargains" were posited. Despite efforts by all sides no satisfactory proposal was developed prior

[2] Diane Katz, "Farm Bill 2012: Agriculture Policy Ripe for Reform", The Heritage Foundation, Washington D.C., Pg. 2
[3] Cost Estimate of S.3240, "Agriculture Reform, Food, and Jobs Act of 2012", Congressional Budget Office, May 24, 2012, Washington, D.C. Pg. 3-4
[4] Op cit, Pg.1.

to the last days of 2012. However, at the last hours, a new proposal emerged which gained sufficient Senate, House support and signed into law by the President on January 2, 2013.

This commentary will not review the new Act in detail. Appendix 3 has a short synopsis of the major changes or deferrals within the Act. There are still many views of which side "won" the negotiations (and gaining a full appreciation of the complexity of the Act). The extension of the 2008 Farm Bill was not the only sector issue addressed in the Act.

Within the Act, wind farms, motorsports tracks, banks and other businesses as well individuals gained or retained significant tax breaks[5]. The Washington Post reported that an excise tax on imported/domestically produced rum was retained to benefit Puerto Rican rum distillers.[6] A significant tax credit for corporate research was extended, supported by technology, manufacturing firms and associated lawmakers-for a two year total of $14.3 billion[7]. The US soybean industry gained from the extension through 2013 of a $1/gal tax credit for biodiesel, which could total up to $2 billion.[8]

The one year extension of the 2008 Farm Bill did prevent the implementation of the 1949 legislation in early 2013 with its very significant target price increases, particularly for US dairy products. The extension did mean that the proposed new 2012 Farm Bill initiatives- for dairy, grains/oilseeds and other initiatives as well as the proposed savings-were not legislated. These will return to the House and Senate Agriculture Committees as the Congressional members re-start the process for a 2013 US Farm Bill.

The extension did provide greater comfort to those commodity producers (Southern US crop producers) who preferred the 2008 direct payments program. The one year extension did not provide new funding for those sections of the 2008 Farm Bill where the funding had expired (mostly in horticulture, specialty crops and in several livestock programs). It also did not provide for the implementation of the proposed new Dairy title with its aspects of supply control was to the deep disappointment of the National Milk Producers Federation[9].

In contrast to a number of titles within the Act, Title VII referring to the extension of the 2008 Farm Bill the CBO scored that section with no net cost over 10 years[10]. Decisions on what fiscal impacts will occur, what parts of the 2012 proposals will be retained or deleted, now shift to the

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[5] Richard Rubin, BusinessWeek.com, January 2,2013
[6] Brad Plumer, Washington Post.com, January 2, 2013
[7] Rubin, op cit.
[8] Keith Good, farmpolicy.com, January 3, 2013
[9] "NMPF to Focus on Passing New Farm Bill in 2013 after Congress Extends Existing Version", National Milk Producers Federation, January 2, 2013, Arlington, Virginia.
[10] "CBO Score of American Taxpayer Relief Act of 2012", Congressional Budget Office, January 1, 2013,Washington, D.C.

two Agriculture Committees for formally approved proposals, then to the Senate and House for passage, and finally to the President at some point in 2013-possibly. This cryptic outline of the anticipated policy process for the new 2013 Farm Bill has a series of implications for both the US and Canadian agri-food sectors and policies.

Implications for the US Farm Bill Extension- US and Canada

The American Taxpayer Relief Act of 2012 did allow the US Government to avoid the January 2013 "fiscal cliff". It did not resolve all outstanding tax and expenditure issues, future deficits and overall US debt issues or major entitlement spending concerns. As such, the Congress and Administration will face a series of new fiscal/debt cliffs for a major part of 2013. This will mean an even greater focus of Congress and the Administration on domestic fiscal and economic issues and less on many other US priorities.

This heightened focus on overall fiscal issues will directly affect US farm policy development. Both Agriculture Committees have signalled the intent to begin discussions early this year to develop a new Farm Bill. It should be noted that with the elections of 2012, several new members of these committees will likely bring new perspectives to the farm policy process. A number of Senators, Congressmen and farm commodity groups have also signalled the need to examine specific issues left out of the American Taxpayer Relief Act of 2012[11]. There will be Senate, House members as well as farm commodity group leaders who view the Act as positive developments and are likely to resist returning to the full 2012 Farm Bill proposals.[12] A key factor in all of these deliberations will be the March 2013 reporting of a new farm bill budget baseline by the CBO which "be the yardstick against which new farm bill proposals will be measured"[13]

Initial implications for US farm bill policy development include:

- even more limited overall Congressional focus on US farm policy;
- a heightened fiscal overview of the planned 2013 Farm Bill and possible increases in budgetary savings to meet likely new budget targets;
- with the failure to achieve the desired policy goals within the 2012 Farm Bill proposals, a number of commodity groups will be pursuing their preferred policy goals with greater intensity and less desire for compromises;
- in turn, those commodity groups which evaded less desired policy proposals in 2012, may try to retain those advantages in the course of the 2013 discussions;

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[11] Keith Good, farmpolicy.com, January 4, 2013, referring to Senator Max Baucus and need to fund livestock disaster programs.

[12] National Cotton Council press release, January 3, 2013

[13] Keith Good, farmpolicy.com, January 4, 2013, quoting a National Sustainable Agriculture Coalition blog commentary

- and, the shifts in 2013 weather and markets may alter the policy focus in the 2013 deliberations.

There is considerable dissatisfaction with the lack of resolve in 2012 among a number of US farm groups, such as the American Farm Bureau Federation[14], and a heightened focus to legislate a full five year farm bill in 2013.

These implications will limit the ability of the two Agriculture Committees to easily obtain a new consensus on a 2013 Farm Bill. Anticipated increases in budgetary savings compared to those recommended in 2012 may create new divisions in the desired consensus for 2013. The future fiscal and debt cliffs to be faced by Congress in 2013 will also affect farm policy discussions. In addition, the specific Agriculture Committee negotiations and farm bill mark ups will face their own policy cliffs depending upon the budget scenarios, willingness to rebuild a new bipartisan consensus, and market or weather realities during 2013. These implications and possible new stakeholder responses add new uncertainty to the US farm policy context as that industry enters the 2013 crop year.

For both Canada's agri-food sector, and its policy framework, notably Growing Forward II, the impacts of this new, uncertain US farm policy development on US crop and livestock production, pricing, producer and processor decisions are critical. In the discussions and consultation surrounding the development of Growing Forward II, the relative stability of US farm policy and its markets are fundamental to Canada's market successes, and its policy framework. If there are more dramatic changes pending, and greater differences in US farm and food sector responses, these will all affect Canada's agri-food competitiveness, investments and innovation over time. In turn, such developments could adversely affect the program costs under Growing Forward II-business risk management (BRM) and non-BRM programs.

It is quite clear that US farm policy and legislative processes, and US farm policy and programming tools are quite different from Canada's (federal or provincial). Yet, much of the US Farm Bill and Growing Forward II as national agri-food policy frameworks attempt to address many of the same farm and food sector concerns, challenges and opportunities inside the continent. Moreover, despite each country's intense focus on its own domestic concerns, the farm and food markets within North America are integrated -policy shifts can matter considerably.

Major shifts in US farm policy programming in these areas can also impact Canada's current and future agri-food markets in the United States. Canada's agri-food sector has considerable experience dealing with US trade policy and trade disputes when US markets are not buoyant.

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[14] "Statement by Bob Stallman, President, American Farm Bureau Federation, Regarding Fiscal Cliff Package and Farm Bill Extension", American Farm Bureau Federation, January 2, 2013, Washington, D.C.

Access to those US markets can change due to other non-farm bill domestic measures- such as the passage of the US COOL legislation-if US domestic industry (producers or processors) believe that despite their own legislative efforts, their markets are unfairly affected by other nations' market successes. Although both countries have different national agri-food policy frameworks, with very different policy processes and histories, each could learn from the other's successes or failures in addressing their domestic agri-food policy issues-innovation, income support, food safety, rural development, sustainability. However, without improved understanding of these national policy frameworks, their constraints and broader legislative processes, such understanding may be difficult to achieve.

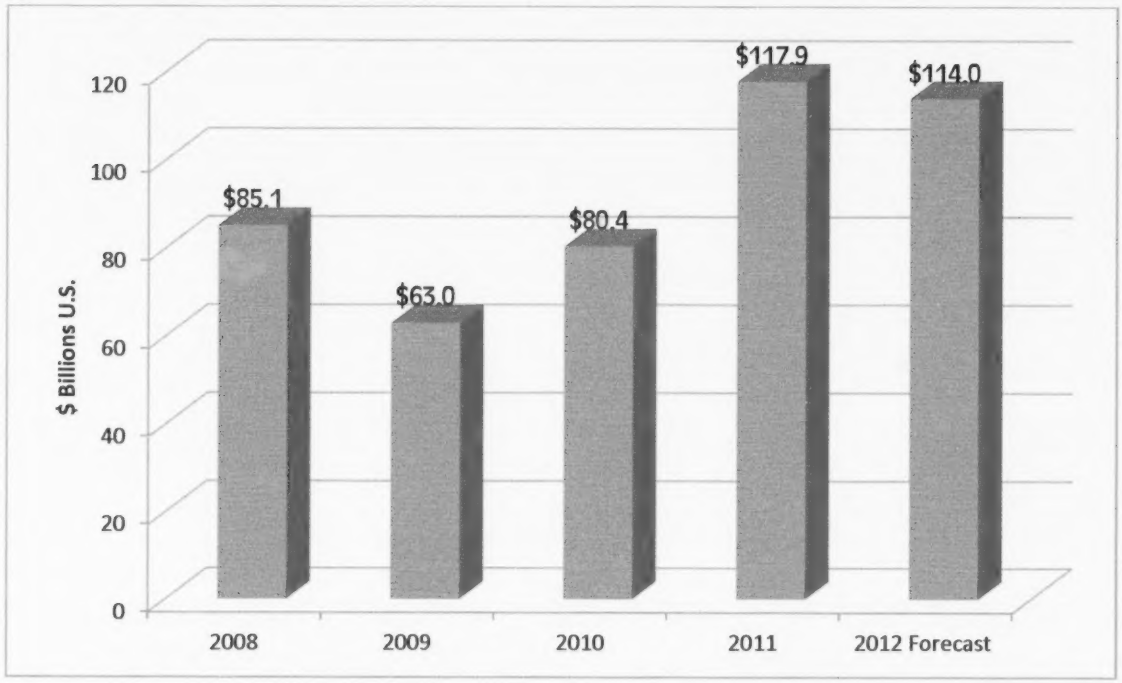
Conclusions

Given the complexity of the fiscal and political situation in the United States, it is doubtful that a full resolution of its "fiscal cliff" could have occurred in one step. The partisanship, openness of US policy processes and the dynamics of US overall fiscal situation, are not likely to be fully resolved in any one overall package. This means that the discussions and negotiations over the various fiscal/debt cliffs will continue throughout most of 2013 to the detriment of many other policy issues within the US- and a new challenge to the northern US neighbour. This applies to US farm policy in 2013 where efforts to fully recapture the bipartisan consensus reached within the Agriculture Committees in 2012 will be difficult.

The long standing public policy support for US farm and food sectors will not evaporate quickly. This public policy support exists in Canada as well. The new uncertainty and shifts in policy focus do not mean US farm policy cannot conclude a new five year Bill, but that policy process may be more awkward than the traditional paths for US farm bill passage.

The extension of the 2008 Farm Bill creates new uncertainties on the farm policy developments within 2013. It also provides a new opportunity to gain deeper insights into US farm sector proposals, regional variations, changing policies for income and price support, and policy implications for trade, inspection, food safety, agriculture and food research and innovation. Canadians may have taken too much comfort in their past access to US markets, and in their understanding of US farm policy processes, increased investments by both public and private participants of Canada's agri-food would be opportune at this stage. The scale of US public policy, its limits, its creativity, and its capacity to adversely and proactively influence Canada's agri-food sector need to be more thoroughly understood. Improved use of Canada's own national agri-food policy framework could better assist the longer market performance of this national industry.

Appendix 1: U.S. Net Farm Income



Source: USDA-ERS, "Income Statement for U.S. Farm Sector, 2008-2012F". http://www.ers.usda.gov/datafiles/Farm_Income/US_Farm_Income_and_Wealth_Statistics_includes_the_US_Farm_Income_Forecast_2012/Nf_t2-rto.pdf. Accessed January 9, 2012.

Appendix 2: Estimated Effects On Direct Spending For S. 3240 As Passed By The Senate On June 21, 2012

	CHANGES IN OUTLAYS FROM DIRECT SPENDING									
Fiscal Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Title I – Commodity Programs	-33	-1,565	-2,776	-2,091	-1,872	-2,372	-2,222	-2,280	-2,169	-2,049
Title II – Conservation	-125	-212	-383	-402	-651	-808	-910	-915	-985	-983
Title III - Trade*	No Changes Estimated									
Title IV - Nutrition	65	-41	-461	-482	-485	-510	-520	-520	-520	-530
Title V** - Farm Credit Programs	No Changes Estimated									
Title VI - Rural Development Credit Programs	0	4	21	25	23	21	14	6	1	0
Title VII - Research, Extension, and Related Matters	34	64	79	111	103	74	61	54	50	50
Title VIII - Forestry	0	1	1	1	1	1	1	1	1	1
Title IX - Energy	18	78	140	161	153	113	74	30	9	4
Title X - Horticulture	32	42	45	46	48	28	29	30	30	30
Title XI - Crop Insurance	-14	-152	413	525	517	697	750	775	764	762
Title XII - Miscellaneous	-1	68	-35	-47	-47	-50	-51	-52	-52	-52
Total Changes in Direct Spending	**-24**	**-1,714**	**-2,956**	**-2,153**	**-2,209**	**-2,806**	**-2,774**	**-2,871**	**-2,870**	**-2,767**

*CBO estimates that the cost of title III provisions will not change, because CBOs baseline assumes that trade programs operate beyond their scheduled expiration date.
** CBO estimates that changes in the bill do not affect direct spending for farm and rural development credit programs relative to the CBO baseline

Source: Congressional Budget Office Cost Estimate: S.3240 Agricultural Reform, Food and Jobs Act of 2012.

Appendix 3: Fiscal contractions scheduled for 2013 and their fate

	Annual Impact ($billion)	**Status**
Maintain middle class tax rate, fix estate, capital gains and dividend rate	197*	Permanent ♦
"Patch" alternative minimum tax	105*	Patched permanently
Medicare fee cuts for doctors	11	Delayed one year
Expiry of extended unemployment benefits	30	Delayed one year
Routine business and individual tax breaks	69	Extended one year
Sequester	110	Delayed 2 months
Tax rates on wealthy	42*	Raised permanently
Payroll tax cut	115	Expired
Higher Medicare Tax	24	Enacted as scheduled
2011 discretionary spending cuts	60	Enacted as scheduled
Debt ceiling	Na	No action
Avoided	Delayed	Incurred

*Fiscal Year 2012
♦ Some tax credits extended for 5 years
Source: The Economist, Volume 406 No.8817, pg.21